

**BKS Bank**

# ***Interim Report***

***for the period ended 31 March 2020***



# Table of Contents

## **BKS BANK AT A GLANCE 3**

## **PREFACE BY THE CHAIRWOMAN OF THE MANAGEMENT BOARD 4**

## **GROUP MANAGEMENT REPORT 7**

Economic Environment	8
Assets, Equity and Liabilities	9
Result of Operations	11
Segment Report	13
Consolidated Own Funds	15
Risk Management	16
Outlook	17

## **CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 MARCH 2020 19**

Consolidated Statement of Comprehensive Income 1 January to 31 March 2020	20
Consolidated Balance Sheet for the period ended 31 March 2020	23
Consolidated Statement of Changes in Equity	24
Consolidated Statement of Cash Flows	25
Notes to the Consolidated Financial Statements of BKS Bank	26

## **MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS 44**

## **FINANCIAL CALENDAR 2020 45**

### **Forward-looking statements**

This interim report for the period ended 31 March 2020 contains statements and forecasts that refer to the future development of the BKS Bank Group. Such forecasts are estimates made on the basis of all of the information available to us on the copy deadline, which was 12 May 2020. Should the assumptions on which the forecasts are based fail to materialize or the risks occur, the actual results may differ from those currently expected. This interim report does not constitute a recommendation to buy or sell shares of BKS Bank AG.

### **Disclaimer**

The German version of this report is the authentic version and is relevant in all legal aspects. Interim financial reports in English are translations for the convenience of readers.

Minimal deviations of the values in the tables and charts are due to rounding differences. This interim Report is an unaudited translation from the German into English. In the event of any discrepancies, the German version shall prevail.

# BKS BANK AT A GLANCE

<b>INCOME STATEMENT</b> in €m	<b>Q1/2019</b>	<b>Q1/2020</b>	± in %
Net interest income	35.8	34.9	-2.6
Impairment charges	-8.2	-6.3	-23.7
Net fee and commission income	14.2	16.9	19.3
General administrative expenses	-29.3	-30.0	2.3
Profit for the period before tax	19.9	4.9	-75.3
Profit for the period after tax	17.3	2.5	-85.4
<b>BALANCE SHEET</b> in €m	<b>31/12/2019</b>	<b>31/03/2020</b>	± in %
Total assets	8,857.6	9,246.2	4.4
Receivables from customers after impairment charges	6,288.1	6,315.9	0.4
Primary deposits	6,668.3	6,891.0	3.3
• thereof savings deposits	1,413.5	1,415.8	0.2
• thereof liabilities evidenced by paper incl. subordinated debt capital	854.4	913.6	6.9
Equity	1,301.5	1,297.3	-0.3
Customer funds under management	18,548.0	17,617.4	-5.0
• thereof on custody accounts	11,879.7	10,726.4	-9.7
<b>OWN FUNDS PURSUANT TO CRR</b> in €m	<b>31/12/2019</b>	<b>31/03/2020</b>	± in ppt
Total risk exposure amount	5,449.6	5,537.0	1.6
Own funds	881.4	896.7	1.7
• thereof common equity tier 1 (CET1) capital	629.6 <sup>1)</sup>	634.8 <sup>1)</sup>	0.8
• thereof total tier 1 capital (CET1 and AT1)	690.8	694.0	0.5
Tier 1 capital ratio (in %)	12.7	12.5	-0.2
Total capital ratio (in %)	16.2	16.2	-
<b>PERFORMANCE RATIOS</b>	<b>31/12/2019</b>	<b>31/03/2020</b>	± in %
Return on equity after tax	7.4	4.2	-3.2
Return on assets after tax	1.1	0.6	-0.5
Cost/income ratio (cost/income coefficient)	50.7	63.1	12.4
Risk/earnings ratio (credit risk/net interest income)	10.2	17.9	7.7
Non-performing loan ratio (NPL ratio)	2.4	2.3	-0.1
Net stable funding ratio (NSFR)	112.4	112.0	-0.4
Liquidity coverage ratio (LCR)	151.8	151.3	-0.5
Leverage ratio	7.8	7.4	-0.4
<b>RESOURCES</b>	<b>31/12/2019</b>	<b>31/03/2020</b>	
Average number of staff	962	964	
Number of branches	63	63	
<b>THE BKS BANK'S SHARE</b>	<b>31/12/2019</b>	<b>31/03/2020</b>	
Number of no-par ordinary shares (ISIN AT0000624705)	41,142,900	41,142,900	
Number of no-par preference shares (ISIN AT0000624739)	1,800,000	1,800,000	
High (ordinary/preference share) in €	17.2/17.0	16.0/15.0	
Low (ordinary/preference share) in €	15.0/13.4	11.3/10.3	
Close (ordinary/preference share) in €	16.0/14.3	12.3/10.3	
Market capitalization in €m	684.0	524.6	

<sup>1)</sup> Includes profit for the year 2019. Formal adoption is still outstanding.

# DEAR SHAREHOLDERS,



In the past weeks, our attention has been focused on the coronavirus crisis. We have accomplished a lot to protect the health of our employees and of our customers, and to help our customers avoid financial ruin by providing loans and also the services needed to access the government loan and guarantee schemes. Austria and the entire global economy are facing prospects of a deep recession for the entire year 2020 at the least. The forecasts for 2021 permit us to hope for better times, but actual developments will be depend on how long the health crisis lasts. Despite the circumstances, we always kept our focus on the future, also in the few past weeks.

BKS Bank has a long-standing tradition of extensive know-how on financial aid schemes. Our experts are well connected with the agencies managing the financial aid schemes and this know-how has been a boon to customers in the past weeks. From mid-March until today, we have processed almost 1,000 applications for financial aid schemes and loan deferral requests. In the same period, we approved over 200 bridge financing loans.

The numerous digital innovations we introduced in the past year have also proven especially useful in these times. Customers have been using these services and products more than ever in the past few weeks. Our offer of advisory services via video meetings has also been highly popular. And the supply of cash always worked smoothly. Therefore, the course of business in the first quarter of 2020 was satisfactory despite the Covid-19 crisis. However, the consolidated profit for the period before tax dropped from EUR 19.9 million to EUR 4.9 million. This was caused by the steep decline in income from investments accounted for using the equity method.

The distortions on capital markets also affected earnings, while the risk result was still largely unremarkable. Net interest income after impairment charges increased and total assets also rose further from EUR 8.86 to EUR 9.25 billion since the end of the year 2019.

### **VIRTUAL ANNUAL GENERAL MEETING FOR THE FIRST TIME**

We were also forced to adapt our planning for shareholders due to the coronavirus. It was not possible to welcome you in person to the 81st annual general meeting on 6 May as originally planned. The dividend distribution proposal published in the annual report also had to be adjusted, because the Austrian Financial Market Authority (FMA) sent an urgent recommendation to Austria's banks to refrain from distributing dividends for the past financial year. Therefore, we proposed to the annual general meeting to distribute the minimum dividend stipulated in the articles of association of EUR 0.12 per preference share to holders of preference shares. Holders of ordinary shares would receive a dividend of EUR 0.12 per ordinary share only if the recommendation issued by the Financial Market Authority were to be repealed within the year 2020. We would like to express our appreciation for your flexibility in this matter.

It is currently extremely hard to make any forecasts on the further economic development of BKS Bank for the full year 2020. We will continue our sales activities without restrictions, while at the same time working to cut our expenses. Important strategic projects such as the advancement of digitalisation, exploiting the opportunities of the Green Deal and the EU Action Plan as well as strengthening our new market positioning will be pursued vigorously and with unabated passion. I am confident that BKS Bank will emerge from the coronavirus crisis fortified – just as it did after the financial and economic crisis. We are accustomed to mastering challenges and know one thing for certain: even if the headwind is temporarily fierce, with hard work and commitment we can recuperate most of the ground lost.

Cordially,



Herta Stockbauer  
Chairwoman of the Management Board





# **Group Management Report**

Economic Environment **08**

Assets, Equity and Liabilities **09**

Result of Operations **11**

Segment Report **13**

Consolidated Own Funds **15**

Risk Management **16**

Outlook **17**

# Economic Environment

## **COVID-19 PLUNGES GLOBAL ECONOMY INTO CRISIS**

The Covid-19 pandemic has created a worldwide health and economic crisis. The economy plunged around the globe and some first estimates paint a dire picture. In the first quarter of 2020, gross domestic product (GDP) in the US dropped by 1.2%, and projections for the full year predict a drop by 4.8%. This has been the first negative quarter in the US since the financial crisis of 2008. The economic indicators are even worse for the euro zone. In the first quarter, GDP shrunk by 3.8%. In Europe, the coronavirus started spreading earlier than in the US and the lockdown in European economies also started two weeks before the first restrictions in the US. In Austria, the economy contracted by 2.7% in the first three months of the year according to the current quick estimates by Wifo. The sectors the most severely affected by the measures implemented to contain the Covid-19 pandemic were tourism, transport, trade, personal services as well as the arts, entertainment and recreation industry. The development of unemployment figures around the world are also worrying. In the US, the number of initial jobless claims climbed to over 30 million since the start of the crisis. In Austria, the unemployment rate rose to 12.8%. One measure taken by the government to ameliorate unemployment is the short-time work scheme that aims to save jobs.

## **CENTRAL BANK POLICY: “WHATEVER IT TAKES”**

The European Central Bank (ECB) quickly moved to reassure markets. The bond purchasing programme that was started just a few months ago was enlarged. Moreover, the ECB announced a new programme to counteract the crisis. Under the heading “Pandemic Emergency Purchase Programme” (PEPP) the central bank plans to buy bonds for a volume of EUR 750 billion until the end of the year. The guardians of the currency are planning to buy not only government bonds, but also corporate bonds, and most recently, also corporate loans.

The US Fed also took quick action. It lowered the Feds Funds rate to zero and reinstated quantitative easing at an aggressive pace. The US Congress passed an economic stimulus programme worth several trillion US dollars to protect businesses and consumers. The central bank’s motto is “whatever it takes” for its actions to ease the situation and, above all, to increase liquidity despite the deep recession.

## **SEVERE DISTORTIONS ON FINANCIAL MARKETS CAUSED BY COVID-19**

Global stock markets were badly shaken by the coronavirus crisis. The environment for the economy, businesses and capital markets changed massively at the end of February/beginning of March. In an unprecedented “flash crash” in the midst of these developments, many stock indices slipped by 40% to 50% within three weeks at the beginning of the crisis. Events followed in rapid succession and left investors with little time to respond. Within just a few days, the biggest daily losses, but also the biggest daily gains were recorded since the failure of Lehman Brothers.

The trend was similar on bond markets. Both government bonds and corporate bonds lost substantial ground in some cases. Yields on government bonds with good to excellent credit ratings doubled with just a few days. This resulted in significant price drops for these otherwise relatively conservative asset classes. The largest drop was seen in commodities though. Except for gold, all commodity segments saw massive losses. For example, a barrel of Brent oil lost 66% in the first quarter of 2020.



# Assets, Equity and liability

Total assets of the BKS Bank Group exceeded the EUR 9.0 billion threshold for the first time on 31 March 2020 hitting EUR 9.3 billion. The growth rate of 4.4% was mainly the result of higher receivables from other banks and a higher level of cash reserves as well as the renewed increase in primary deposits.

## **ASSETS**

### **Moderate credit growth achieved**

At the beginning of 2020, we started into the new business year with great confidence. Demand for loans in January and February was slightly more subdued than at the end of 2019, but by no means gloomy. New business developed as expected until the outbreak of the coronavirus crisis. With the rapid spread of the Covid-19 virus and the ensuing lockdown, demand for loans came to abrupt stop at the end of March. However, this changed swiftly again in April with the onset of demand for bridge financing. Subsequently, at the end of the quarter, receivables from customers before impairment charges stood at EUR 6.4 billion which is same level as at year-end. The item receivables from customers contains the loan volumes of the parent company, BKS Bank AG, and the receivables due to domestic and foreign leasing companies.

Unlike the trend in demand for loans from customers, the trend for receivables from other banks increased considerably by 59.7% to EUR 320.0 million. We invested surplus liquidity in short-term deposits with banks of top-grade credit ratings. The increase in cash reserves is also evidence of the strong inflow of customer funds; we deposited these funds with Oesterreichische Nationalbank and with the European Central Bank.

The ratio of impairment charges to receivables from customers increased slightly by EUR 0.4 million up to EUR 91.1 million. The NPL ratio decreased further and was 2.3% on 31 March 2020.

With respect to foreign currency loans, the decline of Swiss franc receivables continued in the reporting quarter. The share of loans in Swiss francs to total customer receivables was only 1.8%. The volume dropped to EUR 113.0 million, which is a decrease by 3.9%.

### **Subdued demand for leasing, but pleasing development in home loans**

The business of our Austrian and foreign leasing companies developed quite divergently in the first quarter. While the Austrian leasing company stagnated at a leasing net cash value of EUR 229.4 million, we achieved moderate growth rates on our foreign markets. Demand for residential housing loans was pleasing both in Austria and at our foreign branches. Home loans rose by 1.9% or EUR 22.0 million to EUR 1.2 billion. Our online home loan functionality available since last October also developed well. Since it was introduced, we have received over 200 applications through this digital channel.

### **Solid liquidity buffer**

The portfolio of debt securities and other fixed-income securities increased by 2.4% to EUR 911.5 million through investments. This position is currently a mainstay of our liquidity management in addition to the very high cash reserves. In total, liquidity reserves at the end of March were higher than ever before in the form of high-quality liquid assets with a volume of EUR 1,549.8 million.

The share of investments in entities accounted for using the equity method decreased by EUR 2.3 million to EUR 633.6 million as at 31 March 2020. Our partner bank, Oberbank AG, saw a marked decline in earnings in the first quarter of 2020 and was the reason for the slight drop in this position.

Since the introduction of the IFRS 16 leasing standard, right-of-use assets from rental contracts have been recognized as assets and the related payment obligations as leasing liabilities at their respective present values on the balance sheet. Capitalised right-of-use assets are recognized under property, plant and equipment and depreciated over their useful life. The carrying amount of this right-of-use was EUR 22.0 million on the reporting date.

## **EQUITY AND LIABILITIES**

### **Sight deposits surge again**

The rise in customer deposits continued unabated in the first quarter. We are pleased about the faith our customers have in us and are proud of being entrusted with the management of EUR 6.9 billion in primary deposits. The rise compared to the end of the year was 3.3%. Covid-19 did not result in any perceptible changes to the deposit structure or to deposit volumes. On the other hand, we are not happy that we can only deposit surplus liquidity with the ECB at a negative interest rate of 0.5%.

A large share of primary deposits are payables to customers (EUR 6.0 billion) which break down into sight deposits and term deposits as well as savings deposits. Sight deposits have a predominant position and rose by 5.5% to EUR 3.5 billion in the reporting quarter. It is above all corporate customers with high volumes of liquidity that tend to make use of these short-term investment forms. Interest in sight deposits is also rising among retail customers, especially when the deposits are accessible through digital channels at any time and from anywhere. This trend is seen in the steadily rising volumes on the 'Mein Geld-Konto' accounts. In the first three months of the new financial year, the volumes on the 'Mein Geld-Konto' was EUR 385.4 million to EUR 391.1 million. There was little movement in the first quarter in the other items under payables to customers. Term deposits rose to the level of year-end at EUR 1.0 billion and the volume on traditional savings passbooks remained almost unchanged at EUR 1.4 billion.

The issuance business developed highly satisfactorily in the first three months. Own issues including subordinated debt capital increased by a pleasing EUR 59.2 million to a total of EUR 913.6 million. Our reputation as a reliable issuer helped our private placements perform especially well in the first quarter.

The item Other liabilities includes leasing liabilities in an amount of EUR 22.2 million.

The item shareholders' equity hardly changed in the reporting period and at EUR 1.3 billion it was almost at last year's level. Subscribed capital also remained unchanged at EUR 85.9 million

# Result of Operations

BKS Bank recorded a decline in profits as at 31 March 2020 due mainly to the special effects from the result of companies accounted for using the equity method. The market turbulence on international financial markets caused by the Covid-19 pandemic also burdened the earnings for the period. On the other hand, business operations developed very promisingly in the first quarter.

## **SPECIAL EFFECTS CAUSE DECLINE IN EARNINGS**

BKS Bank earned a consolidated profit for the period after tax of EUR 2.5 million as at 31 March 2020, which is a decline by EUR 14.8 million compared to the first quarter of 2019. The drop in profits resulted from two unpleasant events. First, the profits of companies accounted for using the equity method decreased by EUR 9.0 million, because our partner bank, Oberbank AG, reported a negative period result for the first quarter. The second reason was the negative result of EUR -6.4 million from financial assets due to the severe turbulence on international financial markets.

A look at the development of operations reveals that the first quarter was very promising until the lockdown caused by Covid-19. Interest income increased by a pleasing 5.2% to EUR 36.8 million. However, interest expenses also increased (+3.6%; EUR 7.8 million) and other interest income was slightly lower year on year at EUR 6.0 million. Therefore, at EUR 34.9 million, we posted a slight minus of 2.6% in net interest income before impairment charges.

Impairment charges continued to develop moderately at EUR 6.3 million. When calculating the expected credit loss model, we adjusted the macroeconomic factors of influence to the new and substantially deteriorated forecasts in the light of the coronavirus crisis. Nonetheless, we allocated almost one-fourth less to impairment charges (EUR 1.9 million), because the risk costs for non-performing loans was (still) very moderate. Net interest income after impairment charges was therefore EUR 28.7 million, which was an increase of 3.7%.

Net fee and commission income increased markedly by 19.3% to EUR 16.9 million as at 31 March 2020. We are very happy to report that we expanded again in all service segments. Our defined aim is to reduce our dependence on the lending business, and the good development of the service business shows that our efforts are already bearing fruit. In payment services, we achieved a gain of 2.4% up to EUR 5.5 million, while we expanded in the securities business by a remarkable 47.1% to EUR 5.1 million. The exceptionally steep increase also reflects the higher profits resulting from the Slovenian investment firm ALTA Invest, investicijske storitve, d.d. acquired in the previous year. Still, trends in the investment business in the Austrian market also developed well during the first quarter. Commissions on loans increased by 11.6% to EUR 5.1 million as a result of our rigorous policy regarding terms and conditions.

As mentioned above, the result from investments accounted for using the equity method were far below our expectations. The loss for the period at Oberbank AG was the reason for the slightly negative figure of EUR 0.3 million in the item profit/loss on investments accounted for using the equity method compared to the positive result of EUR 8.8 million in the preceding year.

### **PROFIT/LOSS FROM FINANCIAL ASSETS/LIABILITIES BURDENED BY MARKET TURMOIL**

International stock markets were still friendly at the start of the year and sentiment was quite bullish. However, the global spread of the coronavirus triggered some hefty price losses at the end of February/beginning of March on global stock markets that were not recouped by the end of March. Therefore, the result from financial assets was accordingly negative and stood at EUR -6.4 million on 31 March 2020.

### **MODERATE RISE IN COSTS**

In the first quarter of 2020, general administrative expenses were only 2.3% higher than in the first quarter of 2019 at EUR 30.0 million. Staff expenses even decreased slightly to EUR 18.2 million. The number of employees – in full-time equivalents – increased to 964 persons. The increase in general administrative expenses was due mainly to the higher IT costs. Among other things, these resulted in a rise in costs of 11.9% to EUR 9.2 million.

### **REGULATORY COSTS STILL HIGH**

Other operating income was impacted mainly by regulatory costs. The result of other operating income/expenses was EUR -4.5 million (-1.9%) as at 31 March 2020. This item includes expenses for contributions to the resolution mechanism and the deposit guarantee scheme of EUR 4.9 million.

### **DECLINING PERFORMANCE RATIOS**

The key performance ratios changed quarter on quarter as follows: return on equity (RoE) after tax dropped from 7.4% to 4.2% and return on assets (RoA) after tax also decreased from 1.1% to 0.6%.

The cost/income ratio increased due to higher expenses for general administrative expenses to 63.1% and the risk/earnings ratio also rose and was 17.9%. The NPL ratio continued its positive trend at 2.3%. At the close of the quarter, the leverage ratio was 7.4%, and therefore, higher than the mandatory ratio of 3.0%. This is also true for the liquidity coverage ratio (LCR) that attained 151.3% thus exceeding by far the regulatory requirement of 100%.

BKS Bank had a solid capital base also on 31 March 2020. The tier 1 capital ratio was 12.5% at the end of March and the total capital ratio was 16.2%. With these capital ratios we also exceeded the statutory minimum requirements and are well prepared for any distortions that may occur as a consequence of the Covid-19 pandemic.

# Segment Report

**The segment report has three parts: Corporate and Business Banking, Retail Banking and Financial Markets. Corporate and Business Banking – BKS Bank Group’s most successful segment by far – performed highly satisfactorily in the first quarter. The Financial Markets segment was affected by the market turmoil caused by the coronavirus. Happily, profitability in the retail business continued to gain ground.**

## CORPORATE AND BUSINESS BANKING

Personal services and absolute reliability are key elements of our success in Corporate and Business Banking in which we offer a wide range of innovative digital products and services. Offering a combination of personal advice and digital services has proven a very sound policy. As at 31 March 2020, we served some 23,900 customers who placed their trust in our experts who boast many years of experience in this business segment.

### Segment results improve markedly

A look at the first quarter of 2020 shows that the economic consequences of the lockdowns imposed due to the coronavirus were not yet noticeable in the last weeks of March – business was still developing very positively. On 31 March 2020, we achieved a segment profit before tax of EUR 18.1 million, which is an increase of 28.8% versus the same quarter of 2019. The factors behind the outstanding result were the solid development of net interest income (EUR 28.0 million; +7.5%) and the higher net fee and commission income (EUR 8.7 million; +6.6%). In the first quarter, the risk situation of our corporate and business customers was still very much at ease. Therefore, we were able to reduce impairment charges for losses on loans and advances from EUR 7.4 million to EUR 5.6 million as at 31 March 2020. This development did not continue in the further course of the year though, because we expect higher default rates due to the Covid-19 crisis. The general administrative expenses rose from EUR 0.4 million to EUR 13.1 million due to an increase in other administrative costs.

The segment-specific performance indicators also developed positively considering the good segment results. Return on equity rose by 3.8%-points to 17.4%, while the cost/income ratio decreased by 1.4%-points to 35.7% compared to the same period of the preceding year. The risk/earnings ratio decreased due to lower allocations to impairment charges from 28.5% to 20.1%.

## RETAIL BANKING

We have invested large sums into digitalisation projects in the past few years to give our customers the option of conducting all their banking business online as well. The past weeks have proven these investments to be spot on. Our customers have benefited from our extensive online offers and have used these intensely. We were able to swiftly meet the high demand for contactless payments with our wide range of credit cards and debit cards, and also with smart payment systems such as Garmin Pay and BKS Bluecode. We are enormously proud of being able to offer a range of digital products and services that exceed those of mere “online banking”.

We provide services to private individuals and members of the healthcare professions in the Retail Banking segment. As at 31 March 2020, we counted some 167,100 customers in this segment.

### **Satisfactory segment result**

The development of business in the Retail Banking segment was satisfactory in the first three months of the year. The profit for the segment before tax was a pleasing EUR 1.5 million. By way of comparison: in the previous year, the result for the first quarter was negative at EUR -0.6 million. With our two principal sources of earnings – net interest income and net fee and commission income – we achieved excellent growth rates. Net interest income rose by 9.8% to EUR 7.1 million and net fee and commission income expanded by a substantial 30.2% to EUR 7.9 million. Outstanding in the services business was the exceptionally good development of the securities business. Compared to the same quarter of the preceding year, the profit of EUR 3.6 million was higher by two-thirds. A large share of the increase in earnings was due to the newly acquired customers from the takeover of the Slovenian investment firm ALTA Invest, investicijske storitve, d.d.

The risk situation in retail lending is generally less tense than in corporate and business banking. Furthermore, our efforts are aimed at granting loans primarily to customers with high credit scores. At the end of the first quarter, we lowered the level of impairment charges for losses on loans and advances and allocated only EUR 0.4 million. General administrative expenses rose marginally by 1.7% to EUR 13.5 million.

The segment-specific benchmark indicators as at 31 March 2020 improved due to the positive segment results as follows: return on equity reached 5.4%, while the cost/income ratio improved to a gratifying 88.4%.

## **FINANCIAL MARKETS**

Apart from income earned on the management of term structures, the sources of revenue in the Financial Markets segment are returns on the treasury securities portfolio and contributions from entities accounted for using the equity method. Proprietary trading is not at the focus of our business activities.

### **Segment results burdened by special effects**

As at 31 March 2020, the segment Financial Markets posted a negative net result for the period before tax of EUR -10.2 million. This considerable deterioration in results was caused essentially by two factors. First, our partner bank, Oberbank AG, reported a negative period result for the first quarter of 2020. Net interest income, which includes income from investments accounted for using the equity method, slipped into negative territory and stood at EUR -1.4 million on 31 March 2020. Second, the result from financial assets was negative due to the market turbulence triggered by the coronavirus crisis and dropped to EUR -6.6 million.

The allocation for the expected credit loss for receivables from other banks and securities was EUR 0.2 million. The general administrative expenses rose to EUR 2.4 million due to higher other administrative costs.

# Consolidated Own Funds

**BKS Bank calculates the own funds ratio and total risk exposure according to the provisions of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD). The calculation of the own funds requirements for credit risk, for market risk and for operational risk is done using the standardised approach.**

As a result of the Supervisory Review and Evaluation Process (SREP) conducted by the Austrian Financial Market Authority (FMA), BKS Bank was required to meet a minimum requirement for common equity tier 1 capital (CET1) of 5.5% and of 9.7% for the total capital ratio as at 31 March 2020. The capital ratios attained as at 31 March 2020 clearly exceeded these thresholds.

The CET 1 was EUR 634.8 million and the CET 1 ratio was 11.5%. Additional tier 1 capital as at 31 March 2020 was EUR 59.2 million. Including supplementary capital (tier 2) of EUR 202.7 million, total own funds of the bank came to EUR 896.7, while the total capital ratio was unchanged versus year-end 2019 at 16.2%.

Please note that as auditing is not mandatory for this interim report, it has not been audited or reviewed by an auditor. Therefore, the pro rata profit for the period in the first quarter has not been allocated to own funds.

## BKS BANK GROUP OF CREDIT INSTITUTIONS: OWN FUNDS PURSUANT TO CRR

in € m	31/12/2019	31/03/2020
Share capital	83.4	83.0
Reserves net of intangible assets	1.134.0	1.134.4
Deductions	-587.8	-582.6
<b>Common equity tier 1 capital (CET1)</b>	<b>629.6<sup>1)</sup></b>	<b>634.8<sup>1)</sup></b>
Common equity tier 1 ratio	11.6 %	11.5 %
Hybrid capital	6.0	4.0
AT1 note	55.2	55.2
<b>Additional tier 1 capital</b>	<b>61.2</b>	<b>59.2</b>
<b>Tier 1 capital (CET1 + AT1)</b>	<b>690.8</b>	<b>694.0</b>
Tier 1 capital ratio	12.7 %	12.5 %
Tier 2 capital	190.6	202.7
<b>Total own funds</b>	<b>881.4</b>	<b>896.7</b>
Total capital ratio	16.2 %	16.2 %
Total risk exposure amount	5,449.6	5,537.0

<sup>1)</sup> Includes profit for the year 2019. Formal adoption is still outstanding

and eligible liabilities and its purpose is to ensure the proper winding up of banks should this become necessary. The minimum requirement for the MREL ratio is made up of the loss-absorbing amount (LAA) and the recapitalisation amount (RCA), and is supplemented by the premium for maintaining market confidence (MCC).

The Financial Market Authority (FMA) defined a minimum amount for BKS Bank for own funds and eligible liabilities of 15.69% of the total liabilities and own funds (total liabilities and own funds, TLOF) on a consolidated basis. BKS Bank complied with the MREL ratio as at 31 March 2020; therefore, no transitional provisions apply.

## **Risk Management**

Current quantitative information on risk management is based on the internal report regarding overall risk management and is presented in the Notes starting on page 36. Qualitative information is available in annual report for the period ended 31 December 2019



# Outlook

## **GLOBAL RECESSION EXPECTED FOR 2020**

Market participants, economists and analysts believe that the Covid-19 pandemic will have severe effects on gross domestic product (GDP) globally. The coronavirus caught the world unawares and spread unexpectedly fast, paralyzing activity. In order to contain the exponential spread of the coronavirus, most states imposed extreme restrictions on social and economic life and in some cases stopped it completely. The ultimate magnitude of the damage to the economy cannot be estimated reliably right now. However, one thing is certain: the economic repercussions will be severe, and a global recession seems to be unavoidable.

China, where the novel coronavirus originated, slipped into recession already in the first quarter. As the industrialized nations of the West started to be affected by Covid-19 only at the end of the first quarter 2020, the effects of the containment measures will only be seen in the coming months.

The International Monetary Fund (IMF) expects the most severe global recession in almost 100 years in its latest forecasts and predicts a decline of 3% in global economic output. According to the IMF, the economic downturn is even expected to reach 7.5% in some regions such as the euro area, while the US economy is estimated to contract by 5.9%. A marked recovery is expected for the year 2021, but only on the condition the efforts to contain the Covid-19 pandemic are successful. If the efforts fail, the global economy might contract even more severely and shrink by 6.0%. The forecasts for Austria's economy are similarly gloomy. WIFO forecasts a drop of 5.2% in GDP in Austria for this year due to the coronavirus. Economic growth is expected to develop positively again in 2021 and expand by 3.5%.

## **CAPITAL MARKETS: UNCERTAINTY PREVAILS**

It is hard to give an outlook for stock markets right now. There are too many factors of uncertainty with respect to the economic and financial consequences of the Covid-19 crisis. Stock markets will remain extremely volatile and prices are likely to fluctuate in both directions in the coming months. Only when it becomes clear that Covid-19 is merely a temporary – albeit hefty disruption – for business, will stock markets be able to recover lastingly. The positive impact of the very early interventions of the central banks and the emergency purchase programme are pointed out. The appeal of bonds has increased significantly due to the decline in prices caused by the coronavirus. Yield levels of many bond classes – except for government bonds – are now much more attractive than at year-end 2019.

## **COVID-19 MASSIVELY WEIGHS ON PROFITABILITY**

We are now in the midst of the largest health and economic crisis since the end of World War II and the economic and financial consequences of the Covid-19 crisis will accompany us for the remainder of this financial year and beyond. Considering the dramatic plunge of the economy, rising unemployment and the turmoil on international financial markets, we expect the result for the financial year 2020 to be substantially below the record earnings of 2019. What remains hard to assess in the current situation is the development of allocations to impairment charges in the coming months.

The economic shock we are currently experiencing will inevitably result in a higher insolvency rate, despite the fact that the support measures of governments and central banks will ameliorate the situation. Our assumptions include higher risk costs. At the same time, we expect to see key income items decrease significantly. We expect declines in the lending business, because demand for loans is currently driven by the liquidity crisis prevailing among businesses. However, over the medium term, we expect demand to stagnate due to the economic crunch. We also expect fee and commission income to shrink on account of the reduced number of transactions due to the high degree of insecurity.

The outlook for the coming months is anything but rosy. Nonetheless, we continue to look forward with confidence. We are an independent, reliable and stable bank that understands the needs and fears of our customers. We will master the current challenges together with our customers. We firmly believe this. We will, of course, reduce our costs and deploy our resources carefully. We will also review the priorities of our current project portfolio and plan to continue our work on specific strategic initiatives such as the enlargement of digital products and services, as well as our expansion into foreign markets.

As already mentioned in this report, we are following the recommendation of the European Central Bank and have reduced the dividends to be distributed on the grounds of the Covid-19 pandemic. We will propose a new dividend distribution to the annual general meeting that specifies a minimum dividend for holders of preference shares (EUR 0.12 per preference share) as defined in the articles of association. Holders of ordinary shares will receive the dividend EUR 0.12 per ordinary share only if the aforementioned recommendation is repealed in the year 2020.

Klagenfurt am Wörthersee, 12. May 2020



Dieter Kraßnitzer, CIA  
Member of the Management Board



Herta Stockbauer  
Chairwoman of the Management Board



Alexander Novak  
Member of the Management Board

# **Consolidated Financial Statements as at 31 March 2020**

Consolidated Statement of Comprehensive Income 1 January to 31 March 2020 **20**

Consolidated Balance Sheet for the period ended 31 March 2020 **23**

Consolidated Statement of Changes in Equity **24**

Consolidated Statement of Cash Flows **25**

Notes to the Consolidated Financial Statements of BKS Bank **26**

Management's Responsibility for the Financial Statements **44**

# Consolidated Statement of Comprehensive Income 1 January to 31 March 2020

## INCOME STATEMENT

in €k	Notes	Q1/2019	Q1/2020	± in %
Interest income applying the effective interest rate method		34,974	36,780	5.2
Other interest income and other similar income		8,409	5,957	-29.2
Interest expenses and other similar expenses		-7,554	-7,829	3.6
<b>Net interest income</b>	<b>(1)</b>	<b>35,829</b>	<b>34,908</b>	<b>-2.6</b>
Impairment charges	(2)	-8,194	-6,251	-23.7
<b>Net interest income after impairment charges</b>		<b>27,635</b>	<b>28,657</b>	<b>3.7</b>
Fee and commission income		15,225	18,245	19.8
Fee and commission expenses		-1,029	-1,315	27.7
<b>Net fee and commission income</b>	<b>(3)</b>	<b>14,196</b>	<b>16,931</b>	<b>19.3</b>
Profit/loss from investments accounted for using the equity method	(4)	8,773	-267	>-100
Net trading income	(5)	229	558	>100
General administrative expenses	(6)	-29,324	-30,004	2.3
Other operating income	(7)	1,471	1,573	6.9
Other operating expenses	(7)	-6,108	-6,121	0.2
<b>Profit/loss from financial assets/liabilities</b>		<b>2,985</b>	<b>-6,426</b>	<b>&gt;-100</b>
• Profit/loss from financial instruments designated at fair value	(8)	-206	264	>100
• Profit/loss from financial assets measured at fair value through profit/loss (mandatory)	(9)	3,238	-6,531	>-100
• Profit/loss from derecognition of financial assets measured at amortised cost	(10)	-38	-177	>-100
• Other profit/loss from financial assets/liabilities	(11)	-9	19	>100
<b>Profit for the period before tax</b>		<b>19,857</b>	<b>4,900</b>	<b>-75.3</b>
Income tax expense	(12)	-2,544	-2,368	-6.9
<b>Profit for the period</b>		<b>17,312</b>	<b>2,532</b>	<b>-85.4</b>
Non-controlling interests		-2	-1	-37.8
<b>Profit for the period after non-controlling interests</b>		<b>17,311</b>	<b>2,531</b>	<b>-85.4</b>

## OTHER COMPREHENSIVE INCOME

in €k	Q1/2019	Q1/2020	± in %
<b>Profit for the period</b>	<b>17,312</b>	<b>2,532</b>	<b>-85.4</b>
<b>Other comprehensive income</b>	<b>-1,385</b>	<b>-4,530</b>	<b>&gt;-100</b>
<b>Items not reclassified to profit or loss for the period</b>	<b>-2,430</b>	<b>-674</b>	<b>72.3</b>
± Actuarial gains/losses in conformity with IAS 19	-	2,898	-
± Deferred taxes on actuarial gains/losses in conformity with IAS 19	-	-725	-
± Changes in the fair value of equity instruments measured at fair value	-2,280	-6,396	>-100
± Deferred taxes on changes in the fair value of equity instruments measured at fair value	539	1,599	>100
± Fair value changes due to the default risk of financial liabilities measured at fair value through profit/loss (designated)	8	2,068	>100
± Deferred taxes on fair value changes of financial liabilities designated at FV PL attributable to own credit risk	-2	-517	>-100
± Share of income and expenses of associates in OCI accounted for using the equity method	-696	398	>100
<b>Items reclassified to profit or loss for the period</b>	<b>1,045</b>	<b>-3,856</b>	<b>&gt;-100</b>
± Exchange differences	-15	-2,472	>-100
± Changes in the fair value of debt instruments measured at fair value	1,363	-428	>-100
± Net change in fair value	1,363	-428	>-100
± Reclassified to profit or loss	-	-	-
± Deferred taxes on changes in the fair value of debt instruments measured at fair value	-342	129	>100
± Share of income and expenses of associates in OCI accounted for using the equity method	39	-1,084	>-100
<b>Total comprehensive income</b>	<b>15,927</b>	<b>-1,998</b>	<b>&gt;-100</b>
Non-controlling interests	-2	-1	-37.8
<b>Total comprehensive income after non-controlling interests</b>	<b>15,926</b>	<b>-1,999</b>	<b>&gt;-100</b>

## EARNINGS AND DIVIDEND PER SHARE

	31/03/2019	31/03/2020
Average number of shares in issue (ordinary and preference shares)	42,078,581	42,050,168
Earnings per ordinary and preference share in EUR (adjusted for period)	0.41	0.06
Earnings per ordinary and preference share in EUR (annualised)	1.65	0.24

The indicator 'earnings per share' compares consolidated profit for the year with the average number of no-par shares in issue. In the period under review, earnings per share and diluted earnings per share were the same, because no financial instruments with a dilution effect on the shares were in circulation.

## QUARTERLY REVIEW

in €k	Q1/2019	Q2/2019	Q3/2019	Q4/2019	Q1/2020
Interest income and similar income	43,383	42,034	39,137	41,131	42,737
Interest expenses and other similar expenses	-7,554	-7,401	-7,677	-7,211	-7,829
<b>Net interest income</b>	<b>35,829</b>	<b>34,634</b>	<b>31,459</b>	<b>33,920</b>	<b>34,908</b>
Impairment charges	-8,194	-4,997	-3,259	-2,132	-6,251
<b>Net interest income after impairment charges</b>	<b>27,635</b>	<b>29,636</b>	<b>28,200</b>	<b>31,788</b>	<b>28,657</b>
Fee and commission income	15,225	16,250	15,936	15,802	18,245
Fee and commission expenses	-1,029	-1,230	-1,291	-1,442	-1,315
<b>Net fee and commission income</b>	<b>14,196</b>	<b>15,020</b>	<b>14,645</b>	<b>14,360</b>	<b>16,931</b>
Profit/loss from investments accounted for using the equity method	8,773	11,800	14,949	10,394	-267
Net trading income	229	486	462	66	558
General administrative expenses	-29,324	-32,080	-31,255	-28,297	-30,004
Other operating income	1,471	1,850	1,207	2,329	1,573
Other operating expenses	-6,108	-720	-1,279	-978	-6,121
<b>Profit/loss from financial assets/liabilities</b>	<b>2,985</b>	<b>761</b>	<b>697</b>	<b>-781</b>	<b>-6,426</b>
• Profit/loss from financial instruments designated at fair value	-206	-1,100	-207	-73	264
• Profit/loss from financial assets measured at fair value through profit/loss (mandatory)	3,238	909	843	82	-6,531
• Profit/loss from derecognition of financial assets measured at amortised cost	-38	856	299	-577	-177
• Other profit/loss from financial assets/liabilities	-9	97	-238	-213	19
<b>Profit for the period before tax</b>	<b>19,857</b>	<b>26,753</b>	<b>27,628</b>	<b>28,880</b>	<b>4,900</b>
Income tax expense	-2,544	-1,951	-3,145	-2,571	-2,368
<b>Profit for the period</b>	<b>17,312</b>	<b>24,802</b>	<b>24,483</b>	<b>26,310</b>	<b>2,532</b>
Non-controlling interests	-2	-1	-	-	-1
<b>Profit for the period after non-controlling interests</b>	<b>17,311</b>	<b>24,801</b>	<b>24,483</b>	<b>26,310</b>	<b>2,531</b>

# Consolidated Balance Sheet for the period ended 31 March 2020

## ASSETS

in €k	Notes	31/12/2019	31/03/2020	± in %
Cash and balances with the central bank	(13)	550,752	760,880	38.2
Receivables from other banks	(14)	200,333	319,957	59.7
• Impairment charges on receivables from other banks	(15)	-118	-118	-
Receivables from customers	(16)	6,378,787	6,407,032	0.4
• Impairment charges on receivables from customers	(17)	-90,735	-91,086	0.4
Trading assets	(18)	8,755	14,739	68.3
Debt securities and other fixed-interest securities	(19)	890,116	911,511	2.4
• Impairment charges on debt securities	(20)	-337	-466	38.3
Shares and other non-interest-bearing securities	(21)	135,878	131,051	-3.6
Investments in entities accounted for using the equity method	(22)	635,931	633,635	-0.4
Intangible assets	(23)	10,960	10,472	-4.4
Property, plant and equipment	(24)	77,842	78,193	0.5
Investment property	(25)	37,374	37,456	0.2
Deferred tax assets	(26)	7,404	8,497	14.8
Other assets	(27)	14,654	24,408	66.6
<b>Total assets</b>		<b>8,857,596</b>	<b>9,246,160</b>	<b>4.4</b>

## EQUITY AND LIABILITIES

in €k	Notes	31/12/2019	31/03/2020	± in %
Payables to other banks	(28)	689,224	845,603	22.7
Payables to customers	(29)	5,813,967	5,977,476	2.8
• thereof savings deposits		1,413,530	1,415,748	0.2
• thereof other payables		4,400,437	4,561,728	3.7
Liabilities evidenced by paper	(30)	623,792	667,107	6.9
• thereof at fair value through profit or loss		84,237	81,628	-3.1
Trading liabilities	(31)	10,848	14,523	33.9
Provisions	(32)	138,743	131,871	-5.0
Other liabilities	(33)	48,913	65,859	34.6
Subordinated debt capital	(34)	230,584	246,454	6.9
Shareholders' equity		1,301,525	1,297,266	-0.3
• Group equity	(35)	1,301,498	1,297,238	-0.3
• Non-controlling interests		27	28	3.6
<b>Total equity and liabilities</b>		<b>8,857,596</b>	<b>9,246,160</b>	<b>4.4</b>

# Consolidated Statement of Changes in Equity

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in €k	Subscribed capital	Capital reserves	Exchange differences	Fair value reserves	Retained earnings	Profit for the period	Additional equity instruments <sup>1)</sup>	Equity
<b>As at 01/01/2020</b>	<b>85,886</b>	<b>241,416</b>	<b>-117</b>	<b>28,331</b>	<b>797,877</b>	<b>92,905</b>	<b>55,200</b>	<b>1,301,498</b>
Distribution						-		-
Coupon payments on additional equity instruments								-
Taken to retained earnings					92,905	-92,905		-
Profit for the period						2,531		2,531
Other comprehensive income			-2,635	-5,326	3,431			-4,530
Capital increase								-
Effect of the equity method					-1,343			-1,343
Change in treasury shares					-917			-917
Issuance of additional equity instruments							-	-
Other changes					-			-
<b>As at 31/03/2020</b>	<b>85,886</b>	<b>241,416</b>	<b>-2,752</b>	<b>23,005</b>	<b>891,953</b>	<b>2,531</b>	<b>55,200</b>	<b>1,297,238</b>
Status of the fair value OCI reserve (excl. reserves of associates accounted for using the equity method)								13,029
Deferred tax reserve								-3,257

<sup>1)</sup> All additional tier 1 bonds issued are classified as equity in conformity with IAS 32.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in €k	Subscribed capital	Capital reserves	Exchange differences	Fair value reserves	Retained reserves for the period	Profit for the period	Additional equity instruments <sup>1)</sup>	Equity
<b>As at 01/01/2019</b>	<b>85,886</b>	<b>241,416</b>	<b>-335</b>	<b>21,338</b>	<b>741,475</b>	<b>77,417</b>	<b>43,500</b>	<b>1,210,696</b>
Distribution								-
Coupon payments on additional equity instruments								-
Taken to retained earnings					77,417	-77,417		-
Profit for the period						17,311		17,311
Other comprehensive income			114	-740	-759			-1,385
Capital increase								-
Effect of the equity method					-1,081			-1,081
Change in treasury shares					-437			-437
Issuance of additional equity instruments							9,300	9,300
Other changes					-			-
<b>As at 31/03/2019</b>	<b>85,886</b>	<b>241,416</b>	<b>-221</b>	<b>20,598</b>	<b>816,614</b>	<b>17,311</b>	<b>52,800</b>	<b>1,234,403</b>
Status of the fair value OCI reserve (excl. reserves of associates accounted for using the equity method)								11,267
Deferred tax reserve								-2,847

<sup>1)</sup> All additional tier 1 bonds issued are classified as equity in conformity with IAS 32.



# Consolidated Statement of Cash Flows

## CASH FLOWS

in €k	Q1/2019	Q1/2020
<b>Cash and cash equivalents at end of preceding period</b>	<b>571,963</b>	<b>550,752</b>
Profit for the period after tax and before non-controlling interests	17,312	2,532
Non-cash items in profit for the period and other valuation adjustments	-34,770	-25,861
Change in assets and liabilities from operating business activities after correction for non-cash items	-126,136	205,055
<b>Cash flow from operating activities</b>	<b>-143,594</b>	<b>181,726</b>
Cash inflow from sales and redemptions	35,793	11,156
Cash outflow for capital expenditure	-7,638	-43,866
Dividends from entities accounted for using the equity method	-	-
<b>Cash flow from investing activities</b>	<b>28,155</b>	<b>-32,710</b>
Capital increase	-	-
Other deposits	9,300	-
Dividend distributions	-	-
Cash inflow from subordinated liabilities and other financing activities	3,293	61,028
<b>Cash flow from financing activities</b>	<b>12,593</b>	<b>61,028</b>
Effect of exchange rates on cash and cash equivalents	62	84
<b>Cash and cash equivalents at end of preceding period</b>	<b>469,179</b>	<b>760,880</b>

# Notes to the Consolidated Financial Statements of BKS Bank

## MATERIAL ACCOUNTING POLICIES

### I. GENERAL INFORMATION

The interim financial statements of BKS Bank for the period ended 31 March 2020 were prepared in accordance with the principles of the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) as adopted by the EU effective on the reporting date. The relevant interpretations of the International Financial Reporting Interpretations Committee (IFRIC) were taken into account. This condensed interim report complies with IAS 34 “Interim Financial Reporting”.

### II. EFFECTS OF NEW AND AMENDED STANDARDS

The accounting policies applied in the financial year 2019 were also applied in the first quarter of 2020. All amendments to standards that became effective as of 1 January 2020 do not have any material effects on the BKS Bank Group.

### III. RECOGNITION AND MEASUREMENT METHODS

#### Group of Consolidated Companies

Besides BKS Bank AG, the consolidated financial statements accounted for a total of 14 entities: 11 consolidated, two accounted for using the equity method and one accounted for on a proportionate basis. The group of consolidated companies did not change compared to the reporting date 31 December 2019.

#### Effects of the Covid-19 measures

Apart from health protection measures, the Austrian government and the governments of the countries in which BKS Bank operates – Slovenia, Croatia and Slovakia – took action to contain the economic consequences of the Covid-19 crisis. These measures included state guarantees and statutory deferrals of loan repayments all of which contributed greatly to resolving the short-term liquidity bottlenecks caused by the Covid-19 crisis. In addition to **statutory loan deferrals**, in individual cases the BKS Bank Group also offers voluntary loan forbearance plans to corporate and retail customers in Austria and abroad. The loan forbearance plans – regardless of whether state mandated or voluntary – usually meet the criteria of a contractual modification pursuant to IFRS 9, because the contractual adjustments effectively change the contractually agreed cash flows of the underlying financial assets. In this context, a differentiation is made between a significant and a non-significant contractual amendment, with the result of a significant contractual amendment being the derecognition of the financial asset and the subsequent recognition of a new financial asset. In the case of a non-significant contractual amendment, the difference in amount from the contractual amendment is reported as a modification gain/loss in the income statement. Details are given in the Annual Report 2019 in the chapter “Modifications to Contracts”. The effects of the contract modifications were minor in Q1 2020 for BKS Bank, because the corresponding measures only took effect as of the beginning of April 2020. Furthermore, a loan deferral mandated by law may be considered a concession by the lender to the borrower, and therefore, such a loan deferral alone is not an indicator for the credit impairment of the borrower.

Further Covid-19 measures in Austria, Slovenia, Croatia and Slovakia are **guarantees** in favour of credit institutions for bridge loans to enable them to provide guarantees and thus fast liquidity for companies. The state guarantees that BKS Bank received in Q1 2020 for newly granted bridge loans are considered an integral contractual component and the loans guaranteed in this manner are deemed independent financial instruments. Guarantees reduce the amount of loss in the event of default. A guaranteed bridge loan is generally recognized in Stage 1 at the time of initial recognition, because these loans are granted exclusively to economically healthy companies.

#### Expected Credit Loss

The information status on the further development of the Covid-19 crisis is constantly changing, and therefore, also the resultant and/or probable economic consequences too. Based on the forecasts of the International Monetary Fund (IMF), a revaluation of the macroeconomic factors was carried out in 1Q 2020. Additional risk provisions of EUR 3.7 million were calculated as a result of the updating of the forward-looking information.

## FOREIGN SUBSIDIARIES AND BRANCHES AS AT 31 MARCH 2020

in €k	Net interest income	Operating income	Number of employees (FTE)	Profit for the period before tax
<b>Branches abroad</b>				
Slovenia Branch	3,257	5,839	131.2	2,937
Croatia Branch	2,282	2,557	60.5	177
Slovakia Branch	570	582	27.8	-335
<b>Subsidiaries</b>				
BKS-leasing d.o.o., Ljubljana	1,087	1,156	19.1	611
BKS-leasing Croatia d.o.o., Zagreb	488	510	12.3	-114
BKS-Leasing s.r.o., Bratislava	332	361	13.4	90

## FOREIGN SUBSIDIARIES AND BRANCHES AS AT 31 MARCH 2019

in €k	Net interest income	Operating income	Number of employees (FTE)	Profit for the period before tax
<b>Branches abroad</b>				
Slovenia Branch	2,839	4,299	129.2	2,029
Croatia Branch	2,595	2,615	59.5	1,587
Slovakia Branch	615	784	27.3	31
<b>Subsidiaries</b>				
BKS-leasing d.o.o., Ljubljana	1,167	1,240	19.2	702
BKS-leasing Croatia d.o.o., Zagreb	548	624	13.3	180
BKS-Leasing s.r.o., Bratislava	397	545	12.3	99

**IV. OTHER EXPLANATORY NOTES**

Forward-looking assumptions and estimates such as yield curves and foreign exchange rates were made to the extent required, and the financial statements were prepared on the basis of the state of knowledge and information at our disposal on the date of record. The assumptions and estimates considered in the financial statements for the period were made on the basis of the state of knowledge and information at our disposal as at 31 March 2020.

**DETAILS OF THE INCOME STATEMENT****(1) NET INTEREST INCOME**

in €k	Q1/2019	Q1/2020	± in %
Lending operations measured at amortised cost	29,122	31,704	8.9
Fixed-interest securities measured at amortised cost	3,502	3,118	-11.0
Fixed-interest securities measured at FV OCI	145	188	29.3
Positive interest expenses <sup>1)</sup>	2,204	1,770	-19.7
<b>Total interest income applying the effective interest rate method</b>	<b>34,974</b>	<b>36,780</b>	<b>5.2</b>
Lending operations measured at fair value	677	577	-14.8
Fixed-interest securities at fair value through profit or loss	111	112	1.2
Leasing receivables	2,628	2,982	13.5
Shares and other non-interest-bearing securities	4,216	1,456	-65.4
Investment property	778	829	6.7
<b>Total other interest income and other similar income</b>	<b>8,409</b>	<b>5,957</b>	<b>-29.2</b>
<b>Total interest income</b>	<b>43,383</b>	<b>42,737</b>	<b>-1.5</b>
<b>Interest expenses and other similar expenses for:</b>			
Deposits from customers and other banks	1,515	1,388	-8.4
Liabilities evidenced by paper	4,390	4,848	10.4
Negative interest income <sup>1)</sup>	1,396	1,292	-7.5
Investment property	191	249	30.6
Lease liabilities	61	51	-16.9
<b>Total interest expenses and other similar expenses</b>	<b>7,554</b>	<b>7,829</b>	<b>3.6</b>
<b>Net interest income</b>	<b>35,829</b>	<b>34,908</b>	<b>-2.6</b>

<sup>1)</sup> This consists of interest expenses that are positive or interest income that is negative as a result of the historically low interest rates.

**(2) IMPAIRMENT CHARGES**

in €k	Q1/2019	Q1/2020	± in %
Financial instruments measured at amortised cost			
• Allocation (+)/reversal (-) of impairment charges (net)	8,126	6,213	-23.5
Financial instruments measured at fair value OCI			
• Allocation (+)/reversal (-) of impairment charges (net)	-5	87	>-100
Loan commitments and financial guarantee contracts			
• Allocation (+)/reversal (-) of provisions (net)	72	-49	>-100
<b>Impairment charges</b>	<b>8,194</b>	<b>6,251</b>	<b>-23.7</b>

The calculation of the expected credit loss took the most recent forecast of the International Monetary Fund into consideration. It already includes the effects of the Covid-19 pandemic and resulted in the allocation of EUR 3.7 million to expected credit loss.

**(3) NET FEE AND COMMISSION INCOME**

in €k	Q1/2019	Q1/2020	± in %
<b>Net fee and commission income:</b>			
Payment services	5,922	6,062	2.4
Securities operations	3,810	5,651	48.3
Lending operations	4,656	5,251	12.8
Foreign exchange operations	293	765	>100
Other services	545	517	-5.2
<b>Total fee and commission income</b>	<b>15,225</b>	<b>18,245</b>	<b>19.8</b>
<b>Net fee and commission expenses:</b>			
Payment services	562	573	1.9
Securities operations	332	536	61.6
Lending operations	73	136	85.5
Foreign exchange operations	43	55	29.1
Other services	20	14	-26.0
<b>Total fee and commission expenses</b>	<b>1,029</b>	<b>1,315</b>	<b>27.7</b>
<b>Net fee and commission income</b>	<b>14,196</b>	<b>16,931</b>	<b>19.3</b>

**(4) PROFIT/LOSS FROM INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD**

in €k	Q1/2019	Q1/2020	± in %
Profit/loss from investments accounted for using the equity method	8,773	-267	>-100
<b>Profit/loss from investments accounted for using the equity method</b>	<b>8,773</b>	<b>-267</b>	<b>&gt;-100</b>

**(5) NET TRADING INCOME**

in €k	Q1/2019	Q1/2020	± in %
Price-based transactions	-5	-7	-37.2
Interest rate and currency contracts	234	565	>100
<b>Net trading income</b>	<b>229</b>	<b>558</b>	<b>&gt;100</b>

**(6) GENERAL ADMINISTRATIVE EXPENSES**

in €k	Q1/2019	Q1/2020	± in %
Staff costs	18,332	18,239	-0.5
• Wages and salaries	13,508	13,254	-1.9
• Social security costs	3,173	3,297	3.9
• Costs of retirement benefits	1,281	1,317	2.9
• Other social expenses	371	371	-
Other administrative costs	8,178	9,155	11.9
Depreciation/amortisation	2,814	2,611	-7.2
<b>General administrative expenses</b>	<b>29,324</b>	<b>30,004</b>	<b>2.3</b>

**(7) OTHER OPERATING INCOME/EXPENSES**

in €k	Q1/2019	Q1/2020	± in %
Other operating income	1,471	1,573	6.9
Other operating expenses <sup>1)</sup>	-6,108	-6,121	0.2
<b>Other operating income/expenses</b>	<b>-4,637</b>	<b>-4,548</b>	<b>-1.9</b>

<sup>1)</sup> This includes mainly expenses for the resolution mechanism and deposit guarantee scheme.

**(8) PROFIT/LOSS FROM FINANCIAL INSTRUMENTS DESIGNATED AT FAIR VALUE**

in €k	Q1/2019	Q1/2020	± in %
Profit/loss from the fair value option	-206	264	>100
<b>Profit/loss from financial instruments designated at fair value</b>	<b>-206</b>	<b>264</b>	>100

**(9) PROFIT/LOSS FROM FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (MANDATORY)**

in €k	Q1/2019	Q1/2020	± in %
Profit/loss from measurement	3,271	-6,606	>-100
Profit/loss on disposal	-33	75	>100
<b>Profit/loss from financial assets measured at fair value through profit or loss (mandatory)</b>	<b>3,238</b>	<b>-6,531</b>	<b>&gt;-100</b>

**(10) PROFIT/LOSS FROM DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTISED COST**

in €k	Q1/2019	Q1/2020	± in %
Receivables from other banks	-	-	-
• thereof profit	-	-	-
• thereof loss	-	-	-
Receivables from customers	-38	-177	>-100
• thereof profit	301	293	-2.7
• thereof loss	-339	-471	38.8
Debt securities	-	-	-
• thereof profit	-	-	-
• thereof loss	-	-	-
<b>Profit/loss from derecognition of financial assets measured at amortised cost</b>	<b>-38</b>	<b>-177</b>	<b>&gt;-100</b>

**(11) OTHER PROFIT/LOSS FROM FINANCIAL ASSETS/LIABILITIES**

in €k	Q1/2019	Q1/2020	± in %
Modification gains/losses	-9	19	>100
• From financial assets measured at amortised cost	-9	19	>100
• From financial assets measured through FV OCI	-	-	-
• From financial liabilities measured at amortised cost	-	-	-
Derecognition gains/losses	-	-	-
• From financial assets measured through FV OCI	-	-	-
• From financial liabilities measured at amortised cost	-	-	-
<b>Other profit or loss from financial assets/liabilities</b>	<b>-9</b>	<b>19</b>	<b>&gt;100</b>

**(12) INCOME TAX EXPENSE**

in €k	Q1/2019	Q1/2020	± in %
Current taxes	-1,868	-2,235	19.6
Deferred taxes	-676	-134	-80.2
<b>Income tax expense</b>	<b>-2,544</b>	<b>-2,368</b>	<b>-6.9</b>

**DETAILS OF THE BALANCE SHEET****(13) CASH AND BALANCES WITH THE CENTRAL BANK**

in €k	31/12/2019	31/03/2020	± in %
Cash in hand	88,253	92,288	4.6
Credit balances with central banks	462,499	668,592	44.6
<b>Cash and balances with the central bank</b>	<b>550,752</b>	<b>760,880</b>	<b>38.2</b>

**(14) RECEIVABLES FROM OTHER BANKS**

in €k	31/12/2019	31/03/2020	± in %
Receivables from domestic banks	93,585	99,676	6.5
Receivables from foreign banks	106,748	220,280	>100
<b>Receivables from other banks</b>	<b>200,333</b>	<b>319,957</b>	<b>59.7</b>

**(15) IMPAIRMENT CHARGES ON RECEIVABLES FROM OTHER BANKS**

in €k	Stage 1	Stage 2	Stage 3	31/03/2020
As at 01/01/2020	105	13	-	118
Additions due to new business	46			46
Change within stage:				
• Allocation/reversal	-22	2	-	-20
• Disposals due to use	-	-	-	-
Reclassification from one stage to another:				
• Decrease due to credit risk				
– Reclassification from stage 2 to stage 1	-	-	-	-
– Reclassification from stage 3 to stage 1	-	-	-	-
– Reclassification from stage 3 to stage 2	-	-	-	-
• Increase due to credit risk				
– Reclassification from stage 1 to stage 2	-	-	-	-
– Reclassification from stage 1 to stage 3	-	-	-	-
– Reclassification from stage 2 to stage 3	-	-	-	-
Disposals due to repayment	-26	-	-	-26
<b>As at 31/03/2020</b>	<b>103</b>	<b>15</b>	<b>-</b>	<b>118</b>

**(16) RECEIVABLES FROM CUSTOMERS****(16.1) RECEIVABLES FROM CUSTOMERS BY CUSTOMER GROUP**

in €k	31/12/2019	31/03/2020	± in %
Corporate and Business Banking	4,978,964	4,989,292	0.2
Retail Banking	1,399,823	1,417,740	1.3
<b>Receivables from customers by customer group</b>	<b>6,378,787</b>	<b>6,407,032</b>	<b>0.4</b>

**(16.2) RECEIVABLES FROM CUSTOMERS BY MEASUREMENT CATEGORY**

in €k	<b>31/12/2019</b>	<b>31/03/2020</b>	± in %
Financial assets measured at amortised cost	6,241,353	6,274,386	0.5
Financial assets measured at fair value through profit or loss (designated)	79,078	77,947	-1.4
Financial assets measured at fair value through profit or loss (mandatory)	58,356	54,699	-6.3
<b>Receivables from customers by measurement category</b>	<b>6,378,787</b>	<b>6,407,032</b>	<b>0.4</b>

**(17) IMPAIRMENT CHARGES ON RECEIVABLES FROM CUSTOMERS**

in €k	Stage 1	Stage 2	Stage 3	<b>31/03/2020</b>
As at 01/01/2020	15,111	11,252	64,371	90,734
Additions due to new business	2,089	145	-	2,234
Change within stage				
• Allocation/reversal	2,077	-617	-2,124	-664
• Disposals due to use	-	-	-2,477	-2,477
Reclassification from one stage to another:				
• Decrease due to credit risk				
- Reclassification from stage 2 to stage 1	186	-911	-	-725
- Reclassification from stage 3 to stage 1	6	-	-50	-44
- Reclassification from stage 3 to stage 2	-	1	-8	-7
• Increase due to credit risk				
- Reclassification from stage 1 to stage 2	-323	2,058	-	1,735
- Reclassification from stage 1 to stage 3	-8	-	273	265
- Reclassification from stage 2 to stage 3	-	-91	1,807	1,716
Disposals due to repayment	-1,014	-337	-330	-1,681
<b>As at 31/03/2020</b>	<b>18,124</b>	<b>11,500</b>	<b>61,462</b>	<b>91,086</b>

**(18) TRADING ASSETS**

in €k	<b>31/12/2019</b>	<b>31/03/2020</b>	± in %
Positive fair values of derivative financial products	8,755	14,739	68.3
• Currency contracts	1,515	7,578	>100
• Interest rate contracts	-	-	-
• Fair value option	7,240	7,161	-1.1
<b>Trading assets</b>	<b>8,755</b>	<b>14,739</b>	<b>68.3</b>

**(19) DEBT SECURITIES AND OTHER FIXED-INTEREST SECURITIES**

in €k	<b>31/12/2019</b>	<b>31/03/2020</b>	± in %
Financial assets measured at amortised cost	797,761	819,638	2.7
Financial assets measured at fair value through profit or loss (designated)	21,586	21,555	-0.1
Financial assets measured at FV OCI	70,720	70,276	-0.6
Financial assets measured at fair value through profit or loss (mandatory)	50	43	-14.2
<b>Debt securities and other fixed-interest securities</b>	<b>890,116</b>	<b>911,511</b>	<b>2.4</b>



**(20) IMPAIRMENT CHARGES ON DEBT SECURITIES**

in €k	Stage 1	Stage 2	Stage 3	<b>31/03/2020</b>
As at 01/01/2020	337	-	-	337
Additions due to new business	7	-	-	7
Change within stage				
• Allocation/reversal	123	-	-	123
• Disposals due to use	-	-	-	-
Reclassification from one stage to another:				
• Decrease due to credit risk				
- Reclassification from stage 2 to stage 1	-	-	-	-
- Reclassification from stage 3 to stage 1	-	-	-	-
- Reclassification from stage 3 to stage 2	-	-	-	-
• Increase due to credit risk				
- Reclassification from stage 1 to stage 2	-	-	-	-
- Reclassification from stage 1 to stage 3	-	-	-	-
- Reclassification from stage 2 to stage 3	-	-	-	-
Disposals due to repayment	-1	-	-	-1
<b>As at 31/03/2020</b>	<b>466</b>	<b>-</b>	<b>-</b>	<b>466</b>

**(21) SHARES AND OTHER NON-INTEREST BEARING SECURITIES**

in €k	<b>31/12/2019</b>	<b>31/03/2020</b>	± in %
Financial assets measured at fair value through profit or loss (mandatory)	43,687	42,461	-2.8
Financial assets measured at FV OCI	92,190	88,589	-3.9
<b>Shares and other non-interest-bearing securities</b>	<b>135,878</b>	<b>131,051</b>	<b>-3.6</b>

**(22) INVESTMENTS IN ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD**

in €k	<b>31/12/2019</b>	<b>31/03/2020</b>	± in %
Oberbank AG	407,340	401,836	-1.4
Bank für Tirol und Vorarlberg AG	228,591	231,799	1.4
<b>Investments in entities accounted for using the equity method</b>	<b>635,931</b>	<b>633,635</b>	<b>-0.4</b>

**(23) INTANGIBLE ASSETS**

in €k	<b>31/12/2019</b>	<b>31/03/2020</b>	± in %
Intangible assets	10,960	10,472	-4.4
<b>Intangible assets</b>	<b>10,960</b>	<b>10,472</b>	<b>-4.4</b>

**(24) PROPERTY, PLANT AND EQUIPMENT**

in €k	<b>31/12/2019</b>	<b>31/03/2020</b>	± in %
Property	8,777	8,776	-
Buildings	37,764	37,780	-
Other property, plant and equipment	9,031	9,605	6.4
Right-of-use assets für leased real estate	22,269	22,032	-1.1
<b>Property, plant and equipment</b>	<b>77,842</b>	<b>78,193</b>	<b>0.5</b>

**(25) INVESTMENT PROPERTY**

in €k	31/12/2019	31/03/2020	± in %
Property	7,978	7,978	-
Buildings	29,396	29,478	0.3
<b>Investment property</b>	<b>37,374</b>	<b>37,456</b>	<b>0.2</b>

**(26) DEFERRED TAX ASSETS**

in €k	31/12/2019	31/03/2020	± in %
<b>Deferred tax assets</b>	<b>7,404</b>	<b>8,497</b>	<b>14.8</b>

**(27) OTHER ASSETS**

in €k	31/12/2019	31/03/2020	± in %
Other assets	9,905	20,236	>100
Deferred items	4,748	4,173	-12.1
<b>Other assets</b>	<b>14,654</b>	<b>24,408</b>	<b>66.6</b>

**(28) PAYABLES TO OTHER BANKS**

in €k	31/12/2019	31/03/2020	± in %
Payables to domestic banks	611,321	766,455	25.4
Payables to foreign banks	77,903	79,148	1.6
<b>Payables to other banks</b>	<b>689,224</b>	<b>845,603</b>	<b>22.7</b>

**(29) PAYABLES TO CUSTOMERS**

in €k	31/12/2019	31/03/2020	± in %
<b>Savings deposits</b>	<b>1,413,530</b>	<b>1,415,748</b>	<b>0.2</b>
• Corporate and business banking customers	172,047	165,864	-3.6
• Retail banking customers	1,241,483	1,249,884	0.7
<b>Other liabilities</b>	<b>4,400,437</b>	<b>4,561,728</b>	<b>3.7</b>
• Corporate and business banking customers	3,150,069	3,302,284	4.8
• Retail banking customers	1,250,368	1,259,444	0.7
<b>Payables to customers</b>	<b>5,813,967</b>	<b>5,977,476</b>	<b>2.8</b>

**(30) LIABILITIES EVIDENCED BY PAPER**

in €k	31/12/2019	31/03/2020	± in %
Bonds issued	552,404	595,890	7.9
Other liabilities evidenced by paper	71,388	71,218	-0.2
<b>Liabilities evidenced by paper</b>	<b>623,792</b>	<b>667,107</b>	<b>6.9</b>

**(31) TRADING LIABILITIES**

in €k	31/12/2019	31/03/2020	± in %
Negative fair values of derivative financial instruments	10,848	14,523	33.9
• Currency contracts	3,077	6,343	>100
• Interest rate contracts	-	-	-
• Fair value option	7,771	8,180	5.3
<b>Trading liabilities</b>	<b>10,848</b>	<b>14,523</b>	<b>33.9</b>

**(32) PROVISIONS**

in €k	31/12/2019	31/03/2020	± in %
Provisions for post-employment benefits and similar obligations	75,604	72,407	-4.2
Provisions for taxes (current taxes)	3,622	988	-72.7
Provision for guarantees and credit facilities	1,773	1,724	-2.8
Other provisions	57,744	56,752	-1.7
<b>Provisions</b>	<b>138,743</b>	<b>131,871</b>	<b>-5.0</b>

**ACTUARIAL ASSUMPTIONS**

± in %	31/12/2019	31/03/2020
<b>Financial assumptions</b>		
Interest rate	1.30%	1.76%
Salary trend of active staff	2.99%	2.99%
Pensions trends	2.00%	2.00%
Career development	0.25%	0.25%
<b>Demographic assumptions</b>		
Retirement age	65 years	65 years
Mortality table	AVÖ 2018	AVÖ 2018

**(33) OTHER LIABILITIES**

in €k	31/12/2019	31/03/2020	± in %
Other liabilities	21,854	39,922	82.7
Deferred items	4,661	3,721	-20.2
Leasing liabilities	22,398	22,216	-0.8
<b>Other liabilities</b>	<b>48,913</b>	<b>65,859</b>	<b>34.6</b>

**(34) SUBORDINATED DEBT CAPITAL**

in €k	31/12/2019	31/03/2020	± in %
Tier 2 capital	210,584	226,454	7.5
Hybrid capital	20,000	20,000	-
<b>Subordinated debt capital</b>	<b>230,584</b>	<b>246,454</b>	<b>6.9</b>

Subordinated debt capital is reported with accrued interest. The nominal value was EUR 243.1 million at the end of March after EUR 227.7 million in the preceding year.

**(35) SHAREHOLDERS' EQUITY**

in €k	31/12/2019	31/03/2020	± in %
Subscribed capital	85,886	85,886	-
• Share capital	85,886	85,886	-
Capital reserves	241,416	241,416	-
Retained earnings and other reserves	919,023	914,765	-0.5
Additional equity instruments (AT 1 bond)	55,200	55,200	-
<b>Shareholders' equity before non-controlling interests</b>	<b>1,301,525</b>	<b>1,297,266</b>	<b>-0.3</b>
Non-controlling interests	-27	-28	3.6
<b>Shareholders' equity</b>	<b>1,301,498</b>	<b>1,297,238</b>	<b>-0.3</b>

The share capital is represented by 41,142,900 ordinary no-par voting shares and 1,800,000 non-voting no-par preference shares. Each share has a nominal value of EUR 2.0. Capital reserves contain premiums from the issuance of shares. Retained earnings and other reserves consist essentially of reinvested profits. Additional equity instruments refer to the additional tier 1 notes, which are classified as equity under IAS 32.

**RISK REPORT**

The quantitative information in the reports pursuant to IFRS 7.31 to 7.42 is based on the internal reporting for overall bank risk management.

**(36) LOAN QUALITY BY CLASS OF RECEIVABLE AS AT 31 MARCH 2020**

Risk position by rating in €k	AA-A1	1a-1b	2a-2b	3a-3b	4a-4b	5a-5c	No rating	Total
Receivables from customers	56,148	1,713,837	2,558,691	2,092,206	294,203	170,677	645	6,886,407
Credit lines promised	12,759	48,405	54,074	45,183	2,105	673	9	163,207
Receivables from banks	192,461	127,091	5,481	11,088	-	-	-	336,121
Securities and funds	747,987	130,244	13,601	3,726	43	-	-	895,601
Equity investments	691,830	15,761	7,605	164	-	-	1,532	716,891
<b>Total</b>	<b>1,701,185</b>	<b>2,035,338</b>	<b>2,639,451</b>	<b>2,152,366</b>	<b>296,351</b>	<b>171,350</b>	<b>2,185</b>	<b>8,998,226</b>

**LOAN QUALITY BY CLASS OF RECEIVABLE AS AT 31 MARCH 2019**

Risk position by rating in €k	AA-A1	1a-1b	2a-2b	3a-3b	4a-4b	5a-5c	No rating	Total
Receivables from customers	57,122	1,712,863	2,505,442	2,066,875	286,915	173,019	2,029	6,804,265
Credit lines promised	6,997	45,021	62,778	44,712	1,827	759	16	162,110
Receivables from banks	116,228	88,325	4,848	5,537	-	-	-	214,938
Securities and funds	740,058	116,264	13,402	4,247	50	-	-	874,021
Equity investments	697,379	16,801	8,193	164	-	-	1,532	724,069
<b>Total</b>	<b>1,617,784</b>	<b>1,979,273</b>	<b>2,594,662</b>	<b>2,121,535</b>	<b>288,792</b>	<b>173,778</b>	<b>3,576</b>	<b>8,779,400</b>

BKS Bank's default definition corresponds to the definition provided in CRR Article 178. Receivables were therefore deemed to be in default if they were more than 90 days overdue and the overdue amount was at least 2.5 per cent of the agreed line and at least EUR 250. Furthermore, BKS Bank also classified receivables as in default if it assumed that the debtor would not be able to repay the full amount of the loan to the bank.

At the end of March, the non-performing loan ratio was 2.3% (31/12/2019: 2.4%). The calculation is based on non-performing loans in the rating classes 5a to 5c of the BKS Bank rating system (default classes). We calculate the NPL ratio according to the risk dashboard template of the EBA. The reference values represent receivables on the balance sheet from the public sector, central banks, credit institutions and customers.

Cover for the loss potential of non-performing loans is indicated by the coverage ratio. Coverage Ratio I represents risk provisions set aside in relation to the total NPL position. It was 36.1% on 31 March 2020 (31/12/2019: 37.2%). Additionally, we use Coverage Ratio III as an internal benchmark which also includes internal collateral in the calculation. This ratio was 85.4% as at 31 March 2020 (31/12/2019: 88.2%).

**(37) REGULATORY INTEREST RATE RISK IN % OF OWN FUNDS**

Currency	31/12/2019	31/03/2020
EUR	2.46%	4.38%
CHF	0.25%	0.28
USD	-0.03	-0.02%
JPY	-	-
Other	-	-
<b>Total</b>	<b>2.68%</b>	<b>4.65%</b>

**(37.1) VALUE-AT-RISK FIGURES - INTEREST RATE RISK<sup>1)</sup>**

in €k	<b>31/12/2019</b>	<b>31/03/2020</b>
<b>Value-at-risk figures - Interest rate risk</b>	<b>30,890</b>	<b>15,917</b>

<sup>1)</sup> Including credit spread risks

Value-at-risk with respect to interest rate risk is measured on the basis of a historical simulation of the changes in market prices observed in the preceding 1,000 days and computed on a holding period of 90 days with a confidence level of 95%.

**(38) VALUE-AT-RISK FIGURES - EQUITY PRICE RISK**

in €k	<b>31/12/2019</b>	<b>31/03/2020</b>
<b>Value-at-risk figures - Equity price risk</b>	<b>2,351</b>	<b>2,845</b>

Value-at-risk with respect to equity price risk is measured on the basis of a historical simulation of the changes in market prices observed in the preceding 1,000 days and computed on a holding period of 90 days with a confidence level of 95%.

**(39) VALUE-AT-RISK FIGURES - FOREIGN CURRENCY PRICE RISK**

in €k	<b>31/12/2019</b>	<b>31/03/2020</b>
<b>Value-at-risk figures - Foreign currency risk</b>	<b>699</b>	<b>503</b>

Value-at-risk with respect to foreign currency positions is measured on the basis of a historical simulation of the changes in market prices observed in the preceding 1,000 days and computed on a holding period of 90 days with a confidence level of 95%.

**(40) INDICATORS FOR MANAGING LIQUIDITY RISK**

	<b>31/12/2019</b>	<b>31/03/2020</b>
Deposit concentration	0.38	0.38
Loan-to-deposit ratio (LDR)	91.2%	88.6%
Liquidity coverage ratio (LCR)	151.8%	151.3%
Net stable funding ratio (NSFR)	112.4%	112.0%

**(41) OPERATIONAL RISK AND ICT RISKS BY EVENT CATEGORY<sup>1)</sup>**

in €k	<b>31/12/2019</b>	<b>31/03/2020</b>
Fraud	67	27
Employment practices and workplace safety	68	237
Customers, products, business practices	1,453	-1,692
Property damage	27	-3
System failures	10	2
Settlement, sales and process management	315	82

<sup>1)</sup> Excluding credit risk, after refunds

The negative value in the item "Customers, products and business practices" resulted from the partial reversal of reserves from the preceding years of EUR 1.7 million.

**ADDITIONAL INFORMATION****(42) SEGMENT REPORT**

Segment reporting is based on the organisational structure of the Group that underlies its internal management reporting system.

**SEGMENT RESULTS Q1 2020**

in €k	Retail Banking	Corporate and Business Banking	Financial Markets	Other	<b>Total</b>
Net interest income	7,093	27,952	-1,375	972	34,641
• thereof profit/loss from entities accounted for using the equity method	-	-	-267	-	-267
Impairment charges	-395	-5,611	-244	-	-6,251
Net fee and commission income	7,946	8,677	-77	384	16,931
Net trading income	-	-	558	-	558
General administrative expenses	-13,535	-13,091	-2,395	-984	-30,005
Balance of other operating income/expenses	271	89	-11	-4,897	-4,548
Profit/loss from financial assets/liabilities	73	134	-6,632	-	-6,426
<b>Profit for the period before tax</b>	<b>1,453</b>	<b>18,149</b>	<b>-10,176</b>	<b>-4,525</b>	<b>4,900</b>
Average risk-weighted assets	886,476	3,424,258	659,834	157,287	5,127,855
Average allocated equity	108,150	417,745	733,653	39,861	1,299,409
<b>ROE based on profit for the period</b>	<b>5.4%</b>	<b>17.4%</b>	<b>-</b>	<b>-</b>	<b>4.6%</b>
<b>Cost/income ratio</b>	<b>88.4%</b>	<b>35.7%</b>	<b>&gt;100</b>	<b>-</b>	<b>63.1%</b>
<b>Risk/earnings ratio</b>	<b>5.6%</b>	<b>20.1%</b>	<b>-</b>	<b>-</b>	<b>17.9%</b>

**SEGMENT RESULTS Q1/2019**

in €k	Retail Banking	Corporate and Business Banking	Financial Markets	Other	<b>Total</b>
Net interest income	6,459	26,006	11,358	779	44,602
• thereof profit/loss from entities accounted for using the equity method	-	-	8,773	-	8,773
Impairment charges	-532	-7,415	-246	-	-8,194
Net fee and commission income	6,103	8,140	-54	7	14,196
Net trading income	-	-	229	-	229
General administrative expenses	-13,313	-12,665	-1,842	-1,505	-29,324
Balance of other operating income/expenses	658	27	-5	-5,317	-4,637
Profit/loss from financial assets/liabilities	-	-	3,207	-221	2,985
<b>Profit for the period before tax</b>	<b>-626</b>	<b>14,094</b>	<b>12,647</b>	<b>-6,257</b>	<b>19,857</b>
Average risk-weighted assets	595,885	3,361,274	876,635	110,119	4,943,914
Average allocated equity	73,322	413,066	708,890	27,296	1,222,574
<b>ROE based on profit for the period</b>	<b>-</b>	<b>13.6</b>	<b>7.1%</b>	<b>-</b>	<b>7.0%</b>
<b>Cost/income ratio</b>	<b>100.7%</b>	<b>37.1%</b>	<b>16.0</b>	<b>-</b>	<b>53.9%</b>
<b>Risk/earnings ratio</b>	<b>8.2%</b>	<b>28.5%</b>	<b>2.2%</b>	<b>-</b>	<b>18.4%</b>

Method: Net interest income is broken down using the market interest rate method. The costs incurred are allocated to the business areas in which these costs originate. Returns on maturity transformation are allocated to the Financial Markets segment. Capital is allocated based on regulatory parameters. The average allocated equity carries 5% interest and is recognised in net interest income as return on equity invested. The profit for the respective segment is measured based on the profit before tax earned in the segment.

Apart from the cost/income ratio, return on equity is one of the principal benchmarks for managing the business segments. Segment reporting is based on our internal management processes. The Management Board as a whole is responsible for the enterprise's management. The reports used for internal management purposes comprise the following in detail:

- Monthly reporting of results at the profit centre level
- Quarterly reports for all relevant risk types
- Ad-hoc reports of exceptional events

### Corporate and Business Banking

In Corporate and Business Banking, there were roughly 23,900 corporate and business banking customers as at 31 March 2020. BKS Bank was originally conceived as a corporate and business bank, therefore, this business segment is still the bank's most important source of income. Today, corporate and business banking customers still account for a large part of the loan portfolio and contribute substantially to profits. Also reported in this segment - apart from the income and expense components of BKS Bank AG from business with corporates and business customers - are income and expenses of the leasing companies provided they relate to transactions with corporate and business customers.

### Retail Banking

All income and expense components of BKS Bank AG, BKS-Leasing Gesellschaft m.b.H., BKS-leasing d.o.o., BKS-leasing Croatia d.o.o. and BKS-Leasing s.r.o. from business with retail customers, wage and salary earners, and members of the health professions are reported in Retail Banking. At the end of March 2020, this segment had around 167,100 customers.

### Financial Markets

The financial markets segment includes the profits from BKS Bank AG's proprietary trading activities, from treasury securities, from equity investments, from derivatives in the banking book and from interbank transactions as well as from income from interest-rate term structure management.

The segment **Other** includes items of income and expenses that cannot be allocated to the other segments and those contributions to profit that cannot be attributed to any other operation.

### (43) RELATED PARTY DISCLOSURES

in €k	Outstanding balances as at		guarantees received		guarantees provided	
	as at 31/12/2019	as at 31/03/2020	as at 31/12/2019	as at 31/03/2020	as at 31/12/2019	as at 31/03/2020
<b>Non-consolidated subsidiaries</b>			-	-	-	-
Receivables	24,529	24,262				
Liabilities	4,003	4,576				
<b>Associates</b>			-	-	-	-
Receivables	4,425	4,767				
Liabilities	3,690	22,649				
<b>Members of the Management Board</b>			-	-	-	-
Receivables	1,113	1,095				
Liabilities	2,361	2,321				
<b>Other related parties</b>			-	-	-	-
Receivables	173	511				
Liabilities	805	635				

## LOANS AND ADVANCES GRANTED

in €k	31/12/2019	31/03/2020	± in %
Loans and advances granted to members of the Management Board	20	19	-5.0
Loans and advances granted to members of the Supervisory Board	184	180	-2.2
<b>Loans and advances granted</b>	<b>204</b>	<b>199</b>	<b>-2.5</b>

Transactions with related parties were conducted on arm's length terms. During the reporting period, no provisions for doubtful receivables and no expenses on irrecoverable or doubtful receivables were recognised in connection with related parties.

## (44) CONTINGENT LIABILITIES AND COMMITMENTS

in €k	31/12/2019	31/03/2020	± in %
Guarantees	463,620	510,281	10.1
Letters of credit	3,473	6,167	77.6
<b>thereof liabilities evidenced by paper</b>	<b>467,093</b>	<b>516,448</b>	<b>10.6</b>
Other credit risks	1,324,057	1,353,798	2.2
<b>Credit risks</b>	<b>1,324,057</b>	<b>1,353,798</b>	<b>2.2</b>

## (45) EVENTS AFTER THE BALANCE SHEET DATE

In April 2020, the Austrian government and foreign governments took a number of measures to contain the effects of the novel coronavirus on economic developments. These measures include the statutory deferrals for bank loans that are implemented through decrees. The banks must offer their customers deferrals on loan repayments. The measures taken by the governments and the future economic effects of the coronavirus will influence the assets, result of operations and financial position of the BKS Bank Group. However, due to the high degree of insecurity regarding the further development of the economy, it is currently not possible to reliably assess the financial effects.

## (46) FAIR VALUES

**Financial assets and debt measured at fair value**

in €k	Level 1 'Market value'	Level 2 'Based on market data'	Level 3 'Internal measurement method'	Total fair value
<b>Assets</b>				
Receivables from customers				
• at fair value through profit or loss (mandatory)	-	-	54,699	54,699
• at fair value through profit or loss (designated)	-	-	77,947	77,947
Trading assets (derivatives)	-	14,739	-	14,739
Debt securities and other fixed-interest securities				
• at fair value through profit or loss (mandatory)	43	-	-	43
• at fair value through profit or loss (designated)	21,555	-	-	21,555
• at fair value OCI	69,274	-	1,002	70,276
Shares and other non-interest-bearing securities				
• at fair value through profit or loss (mandatory)	42,461	-	-	42,461
• at fair value OCI	5,333	4,094	79,162	88,589
<b>Equity and liabilities</b>				
Liabilities evidenced by paper - at fair value through profit or loss (designated)	-	-	81,628	81,628
Trading liabilities	-	14,523	-	14,523



31/12/2019

in €k	Level 1 'Market value'	Level 2 'Based on market data'	Level 3 'Internal measurement method'	Total fair value
<b>Assets</b>				
Receivables from customers				
• at fair value through profit or loss (mandatory)	-	-	58,356	58,356
• at fair value through profit or loss (designated)	-	-	79,078	79,078
Trading assets (derivatives)	-	8,755	-	8,755
Debt securities and other fixed-interest securities				
• at fair value through profit or loss (mandatory)	50	-	-	50
• at fair value through profit or loss (designated)	21,586	-	-	21,586
• at fair value OCI	69,701	-	1,018	70,720
Shares and other non-interest-bearing securities				
• at fair value through profit or loss (mandatory)	43,687	-	-	43,687
• at fair value OCI	4,053	4,094	84,042	92,190
<b>Equity and liabilities</b>				
Liabilities evidenced by paper - at fair value through profit or loss (designated)				
	-	-	84,237	84,237
Trading liabilities	-	10,848	-	10,848

## LEVEL 3: MOVEMENTS IN FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

in €k	Receivables from customers at fair value through profit or loss (designated)	Receivables from customers at fair value through profit or loss (mandatory)	Debt securities and other interest-bearing securities at fair value through OCI	Shares and other non-interest-bearing securities at fair value through OCI	Liabilities evidenced by paper at fair value through profit or loss
<b>As at 01/01/2020</b>	<b>79,078</b>	<b>58,356</b>	<b>1,018</b>	<b>84,042</b>	<b>84,237</b>
Income statement <sup>1)</sup>	968	732	-16		-541
Reclassification					
Other comprehensive income				-4,880	-2,068
Purchased/added					
Sold/redeemed	-2,099	-4,389			
<b>As at 31/03/2020</b>	<b>77,947</b>	<b>54,699</b>	<b>1,002</b>	<b>79,162</b>	<b>81,628</b>

<sup>1)</sup> Measurement changes in profit/loss; financial instruments reported in the item profit/loss from financial instruments designated at fair value and in the item profit/loss from financial assets measured at fair value through profit or loss (mandatory).

## LEVEL 3: MOVEMENTS IN FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

in €k	Receivables from customers at fair value through profit or loss (designated)	Receivables from customers at fair value through profit or loss (mandatory)	Debt securities and other interest-bearing securities at fair value through OCI	Shares and other non-interest-bearing securities at fair value through OCI	Liabilities evidenced by paper at fair value through profit or loss
<b>As at 1 January 2019</b>	<b>85,287</b>	<b>54,750</b>	<b>-</b>	<b>81,973</b>	<b>84,744</b>
Income statement <sup>1)</sup>	442	-740	-	-	-507
Reclassification	-	-	-	-	-
Other comprehensive income	-	-	-	4,827	-
Purchased/added	-	12,988	1,018	700	-
Sold/redeemed	-6,651	-8,642	-	-3,458	-
<b>As at 31/12/2019</b>	<b>79,078</b>	<b>58,356</b>	<b>1,018</b>	<b>84,042</b>	<b>84,237</b>

<sup>1)</sup> Measurement changes in profit/loss; financial instruments reported in the item profit/loss from financial instruments designated at fair value and in the item profit/loss from financial assets measured at fair value through profit or loss (mandatory).

### **Measurement principles and classification**

The fair values shown in Level 1 'Market values' were determined using prices quoted on active markets (stock exchange).

If market values are unavailable, fair value is ascertained using customary measurement models based on observable input factors and market data, and are presented in the category Level 2 'Based on Market Data' (e.g. by discounting future cash flows from financial instruments). In general, fair values shown in this category are ascertained on the basis of market data that were observable for the assets or liabilities (e.g. yield curves, foreign exchange rates). In general, items in Level 2 were measured using the present value method.

In Level 3 'internal measurement method', the values of individual financial instruments were measured on the basis of special generally accepted measurement methods. In general, liabilities evidenced by paper in Level 3 were measured on the basis of market data that were observable for these liabilities (e.g. yield curves, foreign exchange rates). The factors affecting the values of positions in Level 3 that were not observable in the market were adjustments on the basis of internal rating procedures to the credit ratings of customers and of BKS Bank itself with respect to liabilities evidenced by paper and the credit spreads derived from them. In general, items in the category Level 3 were measured using the present value method.

### **Reclassification**

Reclassifications between the individual categories were carried out if market values (Level 1) or reliable input factors (Level 2) were no longer available or if market values (Level 1) became newly available for individual financial instruments (e.g. an IPO).

### **Changes in the ratings of assets and liabilities measured at fair value**

Changes in the fair values of securities and loans designated as at fair value through profit or loss arising from default risk were calculated on the basis of the internal ratings of the financial instrument and the remaining time to maturity. The change in the default risk associated with liabilities measured at fair value in the period under review was calculated on the basis of a funding curve specific to BKS Bank and a financial instrument's remaining time to maturity. In the reporting period Q1 2020, the changes in the credit ratings of the receivables from customers measured at fair value had an effect on the fair value of EUR 0.0 million (31/12/2019: EUR -0.9 million). In the reporting period Q1 2020, the change in BKS Bank's credit standing had an effect on the fair value of the liabilities evidenced by paper of -2.1 million (31/12/2019: EUR -0.4 million).

### **Sensitivity analysis**

The result of the sensitivity analysis of receivables from customers measured at fair value, assuming an improvement or deterioration in credit ratings of 10 basis points in the credit spread was an accumulated change in value of EUR 0.4 million (31/12/2019: EUR 0.4 million). An analysis assuming an improvement or deterioration in BKS Bank's rating of 10 basis points in the credit spread would result in an accumulated change in the fair value of the liabilities evidenced by paper designated at fair value of EUR 0.3 million (31/12/2019: EUR 0.4 million).

For level 3 equity instruments in an amount of EUR 21.7 million, the material non-observable parameter is the interest rate. An interest rate increase by 50 basis points reduces the fair value by EUR 1.4 million (31/12/2019: EUR 1.4 million). An interest rate decrease by 50 basis points raises the fair value by EUR 1.6 million (31/12/2019: EUR 1.6 million). For level 3 equity instruments in an amount of EUR 47.5 million, a change to external prices by 10% results in a change to fair value by EUR 3.6 million (31/12/2019: EUR 4.0 million). For level 3 equity instruments in an amount of EUR 9.2 million, the material non-observable parameter is the carrying amount of equity. The remainder refers to immaterial minority investments for which no fair value measurement was applied.

## FINANCIAL ASSETS AND LIABILITIES NOT RECOGNISED AT FAIR VALUE

31/03/2020

in €k	Level 1 'Market value'	Level 2 'Based on market data'	Level 3 'Internal measurement method'	Total fair value	Carrying amount 31/03/2020
<b>Assets</b>					
Receivables from other banks <sup>1)</sup>			319,966	319,966	319,839
Receivables from customers <sup>1)</sup>	-	-	6,228,603	6,228,603	6,183,300
Debt securities and other fixed-interest securities	866,334			866,334	819,638
<b>Equity and liabilities</b>					
Payables to other banks			843,508	843,508	845,603
Payables to customers			5,982,172	5,982,172	5,977,476
Liabilities evidenced by paper	171,355	349,867	79,160	600,382	585,480
Subordinated debt capital	222,829	3,460	26,056	252,345	246,454

<sup>1)</sup> Reduced by spec. impair. allow./ECL

31/12/2019

in €k	Level 1 'Market value'	Level 2 'Based on market data'	Level 3 'Internal measurement method'	Total fair value	Carrying amount 31/12/2019
<b>Assets</b>					
Receivables from other banks <sup>1)</sup>	-	-	200,272	200,272	200,215
Receivables from customers <sup>1)</sup>	-	-	6,237,762	6,237,762	6,150,619
Debt securities and other fixed-interest securities	853,379	-	-	853,379	797,761
<b>Equity and liabilities</b>					
Payables to other banks	-	-	686,495	686,495	689,224
Payables to customers	-	-	5,815,920	5,815,920	5,813,967
Liabilities evidenced by paper	174,003	301,079	81,163	556,244	539,555
Subordinated debt capital	207,211	3,428	26,519	237,158	230,584

<sup>1)</sup> Reduced by spec. impair. allow./ECL

# Management's Responsibility for the Financial Statements

"We state to the best of our knowledge that the interim consolidated financial statements as at 31 March 2020 prepared in accordance with the relevant financial reporting standards provide a true and fair view of the assets, financial position and result of operations of the BKS Bank Group, and that the Group management report for the period from 1 January to 31 March 2020 provides a true and fair view of the assets, financial position and result of operations of the BKS Bank Group with respect to the key events having taken place during the first three months of the financial year and their effects on the interim consolidated financial statements with respect to the material risks and uncertainties in the remaining nine months of the financial year".

Klagenfurt am Wörthersee, 12 May 2020

The Management Board



Herta Stockbauer  
Chairwoman of the Management Board



Dieter Kraßnitzer  
Member of the Management Board



Alexander Novak  
Member of the Management Board

**FINANCIAL CALENDAR 2020**

Date	Content
31 March 2020	Publication of the single-entity financial statements and the consolidated financial statements 2019 on the website and in the Official Gazette of the Republic of Austria "Wiener Zeitung"
29 May 2020	81st Annual General Meeting
15 May 2020	Interim report for the period ended 31 March 2020
3 June 2020	Dividend ex-day
4 June 2020	Record date
5 June 2020	Dividend payout day
28 August 2020	Half-year financial report 2020
27 November 2020	Interim report for the period ended 30 September 2020

**INVESTOR RELATIONS CONTACT**

Herbert Titze  
 Head of Investor Relations  
 E-mail: [investor.relations@bks.at](mailto:investor.relations@bks.at)

**Publication Details**

Media owner and publisher: St. Veiter Ring 43, 9020 Klagenfurt am Wörthersee, Phone: +43 (0) 463-5858-0  
 Internet: [www.bks.at](http://www.bks.at), [www.twitter.com/bksbank](https://www.twitter.com/bksbank), E-Mail: [bks@bks.at](mailto:bks@bks.at) or [investor.relations@bks.at](mailto:investor.relations@bks.at)  
 Edited by: BKS Bank AG, Office of the Management Board; copy deadline: 12 May 2020

